

Message Text

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ACTION EA-12

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FM AMCONSUL HONG KONG
TO SECSTATE WASHDC IMMEDIATE 8419
INFO USLO PEKING
AMEMBASSY TAIPEI

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STADIS//////////

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SUBJECT: EAST ASIAN ECONOMIC POLICY REVIEW - HONG KONG

REF: 77 STATE 299030

1. WE HAVE NOT RECEIVED THE CURRENT STATEMENT OF "US. GOALS AND OBJECTIVES" REFERRED TO IN REFTEL (PARA 4). HOWEVER, IF ONE HAS BEEN PREPARED FOR HONG KONG WE ASSUME ITS "ECONOMIC" ASPECTS ARE SIMILAR TO THOSE PRESENTED IN STATE 223323 LAST SEPTEMBER AND WHICH WITH THE MINOR MODIFICATIONS WE SUBMITTED AT THAT TIME (VIA HONG KONG 11351) ARE STILL VALID.

2. ALL U.S. GOALS AND OBJECTIVES IN HONG KONG (AS STATED IN OUR 1977 PARM HONG KONG 3131) ARE PREDICATED ON THE TERRITORY'S CONTINUING POLITICAL STABILITY AND ECONOMIC PROSPERITY. WHILE HONG KONG HAS SHOWN

GREAT RESILIENCE IN WEATHERING PERIODS OF SLACK ECONOMIC GROWTH, PROLONGED ECONOMIC STAGNATION WOULD INEVITABLY CALL INTO QUESTION THE SUBTLE POLITICAL BALANCE UNDERGIRDING THE TERRITORY'S EXISTENCE. HIGH EMPLOYMENT LEADING TO SOCIAL UNREST COULD CAUSE BOTH LONDON AND PEKING TO RE-EVALUATE THEIR PRESENT
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ATTITUDE TOWARD HONG KONG. RESULTANT DEEP UNCERTAINTY ABOUT THE FUTURE WOULD HAVE ADVERSE CONSEQUENCES FOR THE LARGE AMERICAN INVESTMENT HERE, RAISE SELF-DETERMINATION ISSUES FOR HONG KONG'S POPULATION AND PROBABLY HAVE AN UNFAVORABLE IMPACT ON OUR RELATIONSHIP WITH THE PRC.

3. TWO FACTORS DETERMINE HONG KONG'S FUTURE ECONOMIC WELL-BEING: CHINA'S DESIGNS FOR HONG KONG AND HONG KONG'S FREE ACCESS TO ITS MAJOR EXPORT MARKETS. AMERICAN POLICIES THAT FACILITATE THE LATTER MIGHT INFLUENCE THE FORMER, AT LEAST AS LONG AS PRAGMATIC ECONOMIC GOALS HOLD SWAY IN PEKING. THE TRIUMPH OF THE MODERATES IN PEKING HAS BROUGHT INCREASINGLY CLEAR SIGNALS THAT CHINA WANTS HONG KONG'S STATUS QUO TO BE MAINTAINED AND THE LAST FEW MONTHS HAVE WITNESSED PEKING'S MOST EXPLICIT OVERTURES TO DATE TO REASSURE HONG KONG INVESTORS, BOTH CHINESE AND EXPATRIATE, THAT THE CURRENT SITUATION WILL CONTINUE INDEFINITELY. IN KEEPING WITH THIS, BOTH THE SIZE AND SCOPE OF PRC DIRECT INVESTMENT IN HONG KONG HAVE EXPANDED WITH NEW INVESTMENTS HAVING BEEN MADE THIS YEAR IN AN ASSEMBLY PLANT, A SHIPYARD AND IN PETROLEUM DISTRIBUTION FACILITIES. NOT ONLY IS HONG KONG THE PRC'S SINGLE MOST IMPORTANT EXPORT MARKET, ITS ENTREPOT FACILITIES PROVIDE EFFECTIVE MARKETING OF CHINESE COMMODITIES ELSEWHERE OVERSEAS.

4. THE SECOND DETERMINANT OF HONG KONG'S PROSPERITY RELATES DIRECTLY TO THE INTERNATIONAL TRADE ENVIRONMENT AND MOST PARTICULARLY TO U.S. TRADE POLICY. DESPITE ITS VAUNTED RESILIENCE, HONG KONG'S EXPORT-ORIENTED ECONOMY (EXPORTS TYPICALLY CONSTITUTE 80-90 PERCENT LIMITED OFFICIAL USE

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OF GDP) WOULD BE SEVERELY DAMAGED BY A PROTECTIONIST INTERNATIONAL TRADE ENVIRONMENT. CONCERN ABOUT RESTRAINTS ON THE GROWTH OF TEXTILE AND GARMENT EXPORTS HAS ALREADY GENERATED SOME ANXIETY ABOUT POTENTIAL RESTRICTIONS ON OTHER EXPORTS--ELECTRONICS, WATCHES, TOYS, LIGHT METAL MANUFACTURES.

5. WHILE THE USG DOES NOT NOW APPEAR TO BE CONSIDERING RESTRICTIONS ON OTHER HONG KONG EXPORTS, BARRIERS TO PREVENTING THESE GOODS FROM REACHING THEIR MAJOR MARKET WOULD CLEARLY HANDICAP THE HONG KONG ECONOMY'S ABILITY TO DIVERSIFY. ON TEXTILES, STILL THE MAINSTAY OF HONG KONG EXPORT EARNINGS, A PRECIPITATE AMERICAN EFFORT TO MAKE THE NEW US-HK BILATERAL AGREEMENT SIGNIFICANTLY MORE RESTRICTIVE WOULD PROBABLY BE READ HERE AS THE USG'S RENEGING ON ITS COMMITMENTS TO FREE TRADE. WHILE SLACK DEMAND, RATHER THAN RESTRICTIONS HAS REDUCED 1977 TEXTILE EXPORTS, OVERALL (ALTHOUGH EXPORTS TO THE U.S. INCREASED) RESTRAINTS THAT PREVENT HONG KONG FROM TAKING FULL ADVANTAGE OF REVIVED DEMAND WILL EVENTUALLY REDUCE INCOME AVAILABLE FOR INVESTMENT IN OTHER ECONOMIC SECTORS.

6. TO FACILITATE HONG KONG'S OWN ECONOMIC GROWTH AS WELL AS TO MEET U.S. COMMERCIAL OBJECTIVES IN HONG KONG, USG TRADE POLICIES SHOULD REMAIN LIBERAL. THEY SHOULD ALSO REFLECT BALANCED TREATMENT OF HONG KONG AND ITS PRINCIPAL REGIONAL COMPETITORS--TAIWAN, KOREA AND SINGAPORE. SUCH BALANCED TREATMENT APPLIES TO TEXTILES, WHERE IN FACT THE U.S. BILATERAL HAS PRESERVED HONG KONG'S AMERICAN MARKET SHARE, AND TO THE GENERALIZED SYSTEM OF PREFERENCES.

7. OF OTHER FUNCTIONAL AREAS UNDER REVIEW (REFTEL PARA 3), FEW CONCERN HONG KONG DIRECTLY. WITH REGARD TO ADB, WE CONTINUE TO BELIEVE WE SHOULD MAINTAIN LIMITED OFFICIAL USE

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MAINTAIN SUPPORT FOR HONG KONG'S STATUS AS A LDC MEMBER AND OCCASIONAL BORROWER. OUR COMMERCIAL EFFORT IN HONG KONG HAS SECOND HIGHEST OVERALL PRIORITY AMONG THE POST'S OBJECTIVES. MORE ACTIVE PARTICIPATION OF EXIM BANK IN HONG KONG MIGHT AUGMENT THIS EFFORT, ALTHOUGH IN RECENT YEARS, HONG KONG HAS NOT BOUGHT CAPITAL PROJECTS AND EQUIPMENT (AIRPLANES EXCEPTED) FROM AMERICAN SUPPLIERS. CIVIL AVIATION ISSUES HAVE BEEN SETTLED BY THE NEW US-UK AIR SERVICES AGREEMENT; BUT SHOULD BERMUDA II BE REOPENED, THE ISSUES WITH RESPECT TO HONG KONG WOULD REMAIN AS THEY WERE ARTICULATED IN THE 1977 NEGOTIATIONS. HONG KONG NOW REQUIRES NO U.S. AID OF ANY KIND.

8. HONG KONG CONTINUES TO PROVIDE AN OPEN AND HOSPITABLE CLIMATE FOR U.S. TRADE AND INVESTMENT, WHICH WE SHOULD SEEK TO MAINTAIN. THE HKG FOR ITS PART RECOGNIZES THE CRUCIAL IMPORTANCE OF THE U.S. TO ITS ECONOMY, AS THE U.S. IS ITS BEST EXPORT MARKET AND ITS LEADING FOREIGN INVESTOR. THESE AND OTHER FACTORS PRODUCE A MUTUALITY OF INTEREST THAT ENABLES US TO PURSUE U.S. ECONOMIC AND COMMERCIAL OBJECTIVES IN HONG KONG IN A FRIENDLY AND FRUITFUL WAY. AS IN THE PAST, OUR AIM SHOULD BE TO PRESERVE THIS ADVANTAGEOUS RELATIONSHIP BY BEING AS RESPONSIVE TO HKG PROPOSALS AS IN PRUDENTLY POSSIBLE IN THOSE RELATIVELY FEW AREAS WHERE OUR TWO GOVERNMENTS INTERFACE ON ECONOMIC MATTERS. WE SHOULD THEN HAVE LITTLE DIFFICULTY IN MAINTAINING THE IMAGE OF FAIRNESS AND COOPERATION THAT WE HAVE EARNED IN HONG KONG OVER THE PAST TWO DECADES.

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